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RUEHSS/OECD POSTS COLLECTIVE PRIORITY  
RUEHMO/AMEMBASSY MOSCOW PRIORITY 1519  
RUEHSA/AMEMBASSY PRETORIA PRIORITY 0484  
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 1141  
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RUEHBW/AMEMBASSY BUENOS AIRES PRIORITY 0181  
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C O N F I D E N T I A L SECTION 01 OF 02 CANBERRA 000105

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TAGS: ETRD ECON PREL AS

SUBJECT: "BUY AMERICA" PROVISION RAISES CONCERNS IN  
AUSTRALIA

Classified By: ECONCOUNS E KAGAN, REASONS 1.4 B, D

¶1. (C) Summary. The "Buy America" provisions on the purchase of US steel for infrastructure projects in the recently-passed House economic stimulus bill have raised considerable concern in Australian, provoking negative headlines and commentary in the Australian media as well as from key contacts. GOA officials have had little public comment beyond saying through spokespeople they hope the US will abide by its international obligations. In private, they express great concern over the symbolic impact if the final legislation appears to legitimize protectionism and are watching this closely for fear this would give those with protectionist impulses in other countries greater freedom to act. Several contacts have asked if such "buy America" provisions would apply to Australia's limited steel exports to the United States in light of the government procurement provisions of our bilateral FTA. End summary.

¶2. (U) The "Buy America" clause in the House of Representatives' economic stimulus bill requiring suppliers for government-funded infrastructure projects to use US steel has provoked attention in the Australian media. Australia's only national newspaper "The Australian" on January 30 ran the page one headline, "Barack Obama's Threat to Free Trade on Steel", and an editorial titled "Free Trade Threat". "The Australian" story, which praised the Administration for its overall approach to the difficult economic situation, included an indirect quote from a spokesman for Prime Minister Kevin Rudd saying that Australia expected the US to "be mindful of its international trade obligations," such as the US-Australia FTA. The Prime Minister's office told "The Australian" it wouldn't comment about what "The Australian" called the "protectionist threat" until legislation is finalized.

¶3. (C) Steven Kennedy, Prime Minister Rudd's Chief Macroeconomic Advisor, told Econcouns January 29 that Australia is "very concerned" about the clause. He recognizes this would have relatively little direct impact on Australia. However, a move like this, if endorsed by a popular new US Administration, could lend legitimacy to the protectionist efforts in other countries, which is already in

evidence - even among G20 countries that committed to not take such steps.

¶ 14. (C) Trade Minister Simon Crean is in Davos; his adviser Trevor Holloway told econoff that Crean is very aware of the issue and hopes the US will abide by its international obligations and the FTA. Crean has made no public statement on this. Holloway said Crean's concern was about the perception of rising global protectionism in response to the global financial crisis, noting the EU's decision to introduce subsidies for dairy exports, which Crean has sharply and publicly criticized. Holloway said that Crean was anxious to talk to Mayor Kirk once he is confirmed as USTR; Crean spoke frequently to Ambassador Schwab and hopes to maintain this relationship with the new USTR.

¶ 15. (C) Tim Yeend, the First Assistant Secretary for Trade Negotiations at the Department of Foreign Affairs and Trade, said the GOA was "watching carefully" to see what role the Administration plays in trying to "fix" some of the provisions of the stimulus bill. He said he is "not alarmed, yet." Yeend said he would be surprised if the President could not - or was not willing to - insert himself into this kind of discussion. Failure to do so would "not be a positive sign", and whatever happens, this would be the "first indication" of where the President stands on trade and on calls for protection.

¶ 16. (C) The article in "The Australian" today, Yeend said, has generated a lot more media interest. He said that, should

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this provision remain and it did not account for the FTA, it would create a "domestic political problem" for Australia, as well as sending a very poor signal internationally. Yeend also said the GOA was interested in seeing the direction of the new Administration's trade policy, in particular on the WTO Doha negotiations. He said that Minister Simon Crean sees pushing to complete Doha now as a strong positive signal to refute protectionist ideas. This would be a sign of confidence in the merits and benefits of trade to counter the "gloom and doom" about the current trade outlook globally.

¶ 17. (C) Opposition Leader Malcolm Turnbull's senior adviser on national security, Tony Parkinson, also raised the buy-American steel provision at a meeting with POLCONS on January 30. Parkinson, who had previously worked for former Foreign Minister Alexander Downer, noted that there has already been reaction to the measure and said he hoped it would not become an issue. He also pointed out that the US-Australia FTA provides access for Australian steel to projects funded by the USG.

¶ 18. (SBU) James Pearson, the head of the West Australian Chamber of Commerce, told Perth Consul General January 30 that any move towards protectionism would be bad for Australia and Western Australia, which depend so much on international trade. Andrew Stoler, former USTR official and Executive Director of the University of Adelaide Institution for International Business, Economics, and the Law, told econoff such a provision would send a very bad signal. Although he hasn't read the legislation, he said that from what he understands of it, it may violate the national treatment provisions of the GATT. He noted he has been asked to contribute to an international web site ([www.VoxEU.org](http://www.VoxEU.org)) being set up to offer views of economists to the G-20 on what to do to fix the global economy, and in Stoler's words, "how to avoid the mistakes of 1932."

¶ 19. (C) Comment: The GOA, recognizing that the House bill is not the final version and hoping it will change in the Senate and in conference, is unlikely to make any public criticism at this time. However, they will see the Administration's actions on this as an indicator of how it will approach trade

issues generally, and will likely respond critically if what they see as protectionist measures survive in this legislation or anywhere else. Australia, which has very low barriers to trade and has been a strong proponent of Doha, is very concerned about rising protectionist attitudes following the G20 summit in November. They believe protectionism will both exacerbate the global economic slowdown, and directly threaten Australia's open economy and are likely to make the points forcefully in public as well as private should the clause remain in the final legislation. End comment.

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